

Addressing supply chain disruption and compliance in the IMT sector in Africa

Industrials, manufacturing and transportation (IMT) companies have some of the most complex supply chains of any sector and have been particularly hard hit by quarantines, travel restrictions, and other disruptions brought about by the global Covid-19 outbreak.



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Marc Yudaken, partner and Head of the Industrials, Manufacturing and Transportation (IMT) at Baker McKenzie in Johannesburg says that African IMT companies that have operations in multiple jurisdictions, or source products from other regions, have faced intense challenges when reacting to and minimising supply chain impacts.

“The lockdowns, closed borders and travel restrictions put in place to stop the spread of the virus did not only affect people, they affected the transportation of goods, both between and within countries, and severe delays and shortages were the result. This made it difficult for IMT companies to resume and maintain operations even after the virus was brought under control in some countries,” he explains.

Yudaken explains that manufacturing products, industrial machinery and transport equipment constitute over 50% of Africa's import needs, with the most important suppliers being Europe (35%), China (16%) and the rest of Asia including India (14%). Supply chain disruptions in these regions have therefore severely impacted Africa's ability to access essential products and components and has led to a decrease in the availability of manufactured goods imported into Africa.

“African IMT companies with disrupted global supply chains have also found it difficult to identify where the problem areas

were in their supply chains, especially since the spread of Covid-19 around the world has been unpredictable. As a result, they are having to consistently update their supply chain risk assessments with new information,” he says.

Further, IMT companies operating in South Africa, will soon be subject to localisation targets for the sourcing of goods in the IMT sector, including when procuring industrial equipment, construction materials and transport rolling stock, with their supply chains set to become more localised as result. This was announced as part of President Cyril Ramaphosa’s Economic Recovery Plan, on 15 October 2020. He said that it had been agreed at the National Economic Development and Labour Council that both the private and public sector would have to disclose the value of goods and services they procured locally, in their annual reports.

Yudaken notes that changing manufacturing locations or suppliers is risky, and might not be possible in areas with limited options and infrastructure. It is also difficult to assess new suppliers within tight deadlines, to ensure they are fully compliant with local and international laws.

John Bell, Partner in the Dispute Resolution Practice at Baker McKenzie notes that IMT companies must conduct full risk assessments of the impact of Covid-19 on their business operations and any changes that have to be made as a result.

“Included in these risks assessments should a study of the options available to support existing suppliers who are facing supply chains disruptions. If companies have to re-source any of their products, they must assess their current contractual obligations and ways to mitigate the risks of not being in a position to fulfil these obligations. Further, any new contracts entered into should contain clear Covid-19 provisions and cover future pandemic eventualities. IMT companies also need to keep fully up-to-date with constantly changing regulations and policies, implemented to counter the effects of the pandemic, and ensure they are compliant in every country in which they operate,” says Bell.

“In the longer term, supply chain digitisation will help IMT companies in Africa to build resilience in their supply chains, assisting them to streamline their supplier selection process and help to manage relationships. This will assist IMT companies to be able to comply with localisation requirements in the procurement process as well,” Bell adds.

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